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# B U S I N E S S

## BUDGETING

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Editor

L. P. Haverkamp  
Trailmobile, Inc.

Circulation Manager

M. C. Aichholz  
P. O. Box 1, Covington, Ky.

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By: Harold W. Fox  
Dept. Head of Management Services  
Rowe Manufacturing Co., Inc.  
Whippany, New Jersey



# STAFF WORK IN CAPITAL BUDGETING

**I**t is axiomatic to assume that all capital spending is justified in advance of the cash outlay. The methods of justification, however, are sometimes suspect. Frequently, the proponent of the expenditure is the person responsible for supplying the statistics on which the project is to be judged. The author advocates a searching analysis be performed by a staff man on each premise of the proposal. The staff man should also execute an independent evaluation of the contiguous effects on other elements of the company's operation. Management can then appraise the capital expenditure with all the facts, and not only those which make the project look advisable, which is most often the case in current business practice.

Formal requests for productive appropriations usually detail the sponsor's plan and corresponding financial data. Ranked according to estimated return on funds, the proposals are submitted to management. However, before approving an application, management needs to consider also a great variety of other factors. Could management's task be simplified by a systematic assembly and analysis of these collateral facts? Such a comprehensive appraisal should enable management to concentrate solely on decision-making. This article indicates a few of the analytical dimensions of a commitments exploration.

## The Proposal and Start of the Analysis

To serve as an incidental frame of reference, the article will use the construction of field warehouses advocated by the sales department. The application describes the requirements, extols their merits, and projects various operating statistics. It is forwarded by the director of marketing to the budget section which categorizes (as expansion, cost reduction, quality improvement, etc.) the proposal and translates the estimated needs and data into dollars of expenditures, revenue, and income. The package is now ready for analysis.

While it may seem elementary, the first check of an application is for completeness. Perhaps new products exert a major influence on distribution policies but a sales forecast is lacking. An analyst renders a service both to the sponsor and to management by ensuring that all pertinent data will be available for decision-making.

Frequently, a proposal will affect departments other than the originator. In addition to sales, the recommendation for field warehouses will also concern production. Decentralized storage may permit longer runs and facilitate the regularization of production. But these benefits may be dissipated by the costs of carrying higher finished goods inventories. Again, anticipation of changes in inward and outward freight patterns suggests the need for a reorganization of the traffic department. Thus the numerous possible repercussions of a major move warrant a systematic, balanced consideration of the entire business.

Reference to confidential plans may suggest additional need for facts. Suppose that merger negotiations are in an advanced state. Would a network of warehouses complement or duplicate the resources of the prospective associate? If the business combination should not materialize,

is management likely to pursue other possible acquisitions, and what are the facilities of the candidates? These supplementary points are illustrative of the considerations which will enter into a complete proposal.

#### Verification

It appears reasonable that an objective inquiry before a major decision might prevent a debacle which accountability could pinpoint only after the damage is done. This suggests an independent appraisal of the sales forecast and other factors on which the request is predicated. Further, the analyst should make an independent study of the alleged extra business which could be tapped through field warehouses. (Would countermoves by the competition vitiate the market advantage?) For instance, the analyst may conduct a survey among customers and prospects to secure a cross-section of their reactions. (The survey can be so designed that the company's plans are not divulged. It should be approved by the sales department and cleared with the marketing research area.)

The analyst must size up the outlook for property and sales taxes in every jurisdiction. He also checks the cited freight rates and tonnages, and the estimates of order-filling acceleration. Published information on warehousing costs and experiences in comparable industries, studied critically, may provide useful criteria or alternatives. So may a compilation of facts on terms and functions of independent distribution centers.

#### Capacity – and Scarcity

The savings expected from longer production runs must be tested. If the factory was designed for lot manufacture, mass production may not be cheaper. Again, will the decentralization create idle space in storage facilities for which the company is presently committed?

As already mentioned, the effects of a shift to field warehouses will reverberate throughout the organization. A translation of estimated manpower requirements into dollars of salaries and benefits may not spell out the prospective task adequately. A fuller consideration would probe into human and physical capacities. Administrative talent will be needed to coordinate the project and to control the realization of the promised benefits. Personnel of executive timber will have to carry out the new responsibilities for warehouses management and direct customer service. In contrast, how many new assignments must be found for employees who will become available under the warehouses plan?

The personnel department may be able to provide an inventory of available skills plus data on labor supply and wage rates in the areas under consideration. Is there a shortage of qualified people to man the installations? A new

project calls upon special skills, e.g. maintenance engineering, which the company's present roster may be unable to provide.

Is suitable materials handling equipment available? Are local utilities able to provide needed services? These questions are obvious. However, not only have there been factories constructed abroad where there is no source of power, no labor, and no market for the goods but similar mistakes occur in the United States.

The purpose of the analysis is to disclose the demands – financial as well as operational – which the project makes on the corporation. As in national defense, a financial appropriation does not guarantee that plans will materialize. But the uncertainties can be reduced. An identification of the latent obstacles is a management service for a realistic appraisal. Secondly, the identification is needed for a sound evaluation of estimated profits.

#### Profitability

Profitability ratios are a widely used element in expenditures analysis. Three prominent types of measures are: (1) reciprocal of cash pay-back period, (2) percentage of average profit (on sales and on investment), (3) discounted cash flow.

In refinement, the above trio is ranked from low to high; in objectivity, from high to low. Many readers will probably find it easier to agree with the first than with the second part of the last sentence. The second part is intended to provoke consideration of the following premises. The nearer the forecast period, the easier it is to be factual. Calculation of cash pay-back usually involves less than four years. The second method, return on funds, seems to imply that the year selected is the average of an unspecified (infinite?) number of years. The third formula requires a long-term estimate of expenses, savings, taxes, profits, etc. Even discounting one dollar 15 years ahead at the rate of 15 per cent yields 11-1/2 cents which is still material. Presumably, values in this formula would be the most subjective.

If forecasts were more accurate, the third type of formula would be more useful. Some companies report that the discounted cash flow projection provides fairly accurate averages, with high estimates offset by low ones. Perhaps rates assigned to new requests compensate for variances on results to date; in time, average experience and average forecast rate will coincide – under any formula. Again, how closely do the records delineate all impacts of one particular decision? The purpose here is not to deprecate any method but merely to indicate the challenge to operating and accounting forecasts to lessen the uncertainty in financial decisions.

## Risk

It may be pertinent for the analyst to link profitability ratios with risk. Under free competition, profit is the reward for risk. Under modified free enterprise, other factors such as governmental regulations, administered wages and prices, etc., come into play. But there remains a large element of risk; it is not incorporated into the aforementioned ratios. It is possible, of course, to construct an economic model in which risk and other factors are scaled. The dilemma of subjectivity as a concomitant of sophistication would presumably be aggravated, however. It is often observed that businessmen mistrust complex formulas. Perhaps this attitude is realistic rather than Philistine.

Sometimes, an extreme ratio may be a clue to high risk. It is axiomatic that a superior margin on sales invites competitors. But suppose that the profit percentage on sales is low, and a heavy turnover improves the return on funds to a satisfactory rate. There are two danger signals here: (1) inadequate margin of safety; a slight increase in variable costs would vitiate profits even at higher volume, and (2) heavy vulnerability in case of reduced volume. Another possibility is that the projection of a high cash flow discount rate may be premised on the abolition of manual jobs, raising the specter of strikes or union demands for sharing in the productivity gains.

## Other Financial Ratios and Flexibility

In contrast to profitability measures, balance sheet ratios can often be projected and checked with assurance. An investment in land and buildings will increase fixed assets and its proportion to capital; leaseback or renting will, relatively speaking, conserve liquidity. It may be that the most efficient use of capital as indicated by profitability ratios will impair the enterprise's credit standing (overtracing on the equity).

Returning to the warehouses request, a profitability (savings) evaluation may rank them as follows:

- (1) corporate ownership - highest return
- (2) leaseback (99 years) - intermediate
- (3) rental of public space - lowest return

If flexibility is important, for instance because of possible mergers, the analyst would certainly include choice No. 3 for top management's consideration, even though rigid adherence to a formula would dictate its exclusion. Thus there may be occasions when the analyst must divert management's attention from profitability estimates to the projected effects on the company's financial structure and flexibility.

## Financing

The balance sheet impact must be probed especially if outside funds may be used. It may be easier to mortgage the field warehouses than to float a general obligation. If the operations are self-liquidating through rent income and service charges, records on earning capacity will facilitate the negotiation of a bank loan. Accordingly, the analyst would recommend a segregation in the accounting records of all expenditures and revenues pertaining to the project. The chief purpose would be to establish a basis for a line of credit. Another use of such a book treatment is as control medium on approved requests.

Suppose the goal in field warehouses is to extend distribution into previously unserved areas. A suitable financing vehicle may be a franchise program with headquarters retaining administrative control over the penetration of markets. The relative ease of attracting funds may be a very practical consideration in the assignment of priorities among worth while alternatives.

## Nonfinancial Factors

Financing considerations aside, the apportionment of funds should tie in with the time schedule of the company's long-range plans. The field warehouses may be part of a larger strategy of forward integration.

Perhaps they replace public facilities rented at present. Independence and additional capacity for company operations as well as control and secrecy may be factors here. In addition to projecting what might happen if a proposal were adopted, a prudent diagnosis would also consider the probable consequences of a rejection. The field warehouses may be a defensive move against competitors working successfully on a decentralized basis. Evidence may point to a drastic loss in market position if the project is disapproved. Thus the analyst's examination of the various administrative and operational motivations will furnish a basis for scaling and ranking the urgency of competing requests.

## Price Trends and Obsolescence

For adroit timing of commitments, the analyst should not ignore the outlook for inflation or deflation. It is likely that the various objects of different appropriation requests do not have uniform price trends. Hence, the analyst should forecast their price movements and gauge the eventual differentials. The purpose here is to estimate the extra penalty for postponing an ultimately necessary investment.

An argument for the earliest possible purchase

may not prevail in a period of rapid technological development. While it may be most efficient to avail oneself of innovations at the first opportunity, there will also be instances when the frequent changeover costs and dislocations erase the advantages of improvements. Thus the prospect of rapid obsolescence can act as a temporary deterrent to acquisitions.

### Quality

The impact of a project on a company's quality standard or target is yet another analytical phase. Here the connotation of quality is in a broad sense. Whether the storage place will have an adverse effect on the merchandise is one avenue of investigation. Another is the quality of service to customers. If orders are currently shipped promptly in consolidated carloads, the expectation of faster availability from warehouses is doubtful. There will probably be many customers who will experience delays in the arrival of LCL freight from the closer shipping point.

A less obvious but important aspect is the impact of personnel development. This reference is not an advocacy of ideological indoctrinations. An example of a positive program is utilization of the field warehouses as a training and testing ground for middle management.

### Social Considerations and Other Intangibles

A manufacturer of luxuries does not have the same type of responsibility as say, a prime contractor for defense material. The Office of Civil and Defense Mobilization may have suggested the field warehouses in order that the inventories be dispersed in case of air attack.

Community relations are important. What dislocations would the move cause in the present storage area? — and in the proposed areas? Again, the possibilities of new legislation or regulation is often a cogent factor in the exploration of a new venture.

Among other intangible determinants are the attitude and technical competence at various levels of control. Perhaps research has captured the fancy of stockholders and appropriations are generous. Or, an influential associate may be pressing for his favorite project. The field sales director may oppose warehouses because he suspects that they may give the regional sales managers more autonomy. Do the proposed warehouses foreshadow a change in the channels of distribution? Also, the analyst must anticipate organizational problems. Will the field warehouses be under the jurisdiction of marketing or manufacturing?

These are some of the background pressures which intrude into decision making. Hence their

inclusion into a briefing of the top hierarchy is necessary.

### Disposition of the Application

At the earliest possible moment, or by a pre-determined deadline, the request should reach the decision-makers for action. Before submission, the originator may, if he so desires, alter the proposal to utilize the findings of the analyst. This is a privilege — not an obligation. The analyst enjoys a corresponding independence. It is preferable to air differences at this stage than to submerge them until after the commitments have been made.

Upon termination of his study, the analyst appends his interpretations to the capital expenditures request and forwards a clear and comprehensive presentation to top management. Following its adoption, the application serves as the basis for controlling the project.

### Status of the Analyst

The description of the analytical role suggests a brief consideration of slotting the staff activity. This is an organizational question which companies will solve individually.

In a small firm the analytical survey may be supplied by the chief accountant. In companies with a defined appropriations program the diagnostic service may be a responsibility of the capital budget section. On the other hand, some controllers prefer a separation of formal accounting and budgeting operations from analytical staff activities. Again, the analyst may report directly to the executive who authorizes capital requests.

Each course offers some particular advantage. Integration of the analytical function with budgeting should simplify the program. A separate staff provides a focal point for all appraisals, e.g., mergers as well as expenditures. As a representative of top management, the analyst could secure maximum cooperation in his quest for facts.

In any case, the analyst scrutinizing expenditures requests must be familiar with the company's economic environment; its human, technical, and financial capacities; and its broad objectives with their relative importance and timing.

### Importance of an Analysis

Investment exerts an incisive leverage upon national employment and income. For a corporation, a major expenditures decision is often an irreversible commitment. Current business facts such as the extremely high mortality rates among new products and new ventures lead to the conclusion that efforts toward the prevention of such social and economic waste should be encouraged. And,

the threat by a predatory dictatorship to the democratic way of life magnifies this responsibility.

Some of the operational, financial, and intangible ramifications subjects to analysis prior to a major investment decision have been mentioned. Any depth analysis is likely to uncover important factors whose relevance to the project was not apparent when the request was prepared. The cited avenues illustrate bases for exploring

capital commitments; they do not represent a check list on field warehouses.

Business strength has both quantitative and qualitative ingredients. Both contribute to company profit but the former are directly translatable into figures while the latter are best expressed in operational terms. A profit oriented inquiry should encompass both types of ingredients.

## NSBB BOARD OF DIRECTORS

## INSTITUTES ANNUAL AWARDS

At the Board of Directors meeting in Philadelphia in October the board accepted the proposal of the Awards Committee, headed by Charles Manteuffel (Louisville Chapter) to establish three yearly awards for outstanding contributions to the Society.

Three separate areas involving both Chapter and individual member performance were selected by the committee to be honored. Awards for the fiscal year 1959-1960 will be presented for:

1 - The best technical article appearing in Business Budgeting during the calendar year 1959.

2 - The most effective series of Chapter Newsletters during the period of July 1, 1959 through March 31, 1960.

3 - The most effective Chapter Brochure for the fiscal year 1959-1960.

The awards will be presented at the Annual Meeting of the Members at the National Conference on May 20, 1960 at Cincinnati, Ohio.

Chairman, Charles Manteuffel, has asked a representative group of NSBB members to assist him, but at present does not have the definite committee assignments to announce. He reported to the Board of Directors that he expects to establish high standards of performance, but that, in his opinion, fixed standards of judging can only be developed over a period of time. Since this is the first year of the three awards modification of ground rules can be expected in future years. Your Chairman will have a complete report to issue in a later issue of Business Budgeting.

By: E. H. Smedley  
Senior Partner  
Stevenson, Jordan & Harrison  
Cleveland, Ohio

## PROFIT PLANNING

### By Use of Profit-Volume Ratio

**E**veryone is talking about it and you know the saying, "Where There's Smoke There's Fire." Everyone knows P/V Ratio is a hot subject today, and the author of this article and his company are leading exponents of this mode of profit planning. P/V ratio helps to clarify management thinking on difficult decisions involving the problem of profit deviations from the normal trend caused by the influence of volume changes. The author simplifies the process through use of illustrative charts and schedules. This is more than an article to read, it's a program to study and apply.

The basic concepts of this subject are so simple that we could cover the entire subject in five minutes. On the other hand, the profit-volume (P/V) ratio is such a flexible tool that an almost endless list of applications could be discussed.

I will therefore present several examples drawn from actual case histories in the hope that they will stimulate you to inquire further into the theory of P/V ratio.

#### Definitions

So we may all speak the same language. I will define the following terms:

**1. Fixed costs** are those costs which do not vary with the level of activity. Examples would be property taxes, executive salaries, etc. Fixed costs are sometimes called period costs because they recur regularly in very nearly the same amounts each accounting period.

**2. Variable costs** are those which vary directly with activity. Examples would be direct materials, or direct labor (assuming, of course) that direct labor costs are adequately controlled, etc.

**3. Semi-variable costs** (sometimes referred to as mixed costs) are those which partake of the

nature of both fixed and variable costs. An example would be purchased electrical energy where there is a demand charge (fixed) and a kilowatt-hour cost (variable). It is essential that the fixed and the variable components be isolated if an adequate job of profit planning and control is to be done.

**4. Profit Contribution (P.C.)** is the difference between the net revenue and the sum total of all variable costs. P.C. is sometimes called Marginal Income (M.I.)

**5. The profit-volume ratio (P/V)** is simply profit contribution divided by net revenue. It is a convenient ratio for comparing companies, divisions, products, etc. as in all cases it tells the rate at which profit accumulates with an increase in volume. If there were no fixed costs, this profit accumulation, of course, would be net profit. Since there are fixed costs, the accumulation must be sufficient to equal such costs before a breakeven point is reached. Thereafter it is net profit.

P.C. (or M.I.) and P/V can be calculated for a company, a division, a department, a product, a sales territory or any other functional entity. Usually for profit planning purposes, we first deal with the company as a whole and make whatever refinements are necessary to lay out the

objectives and tasks of the various sections of the organization.

### The Profit Formula

I am sure that the improvement in profit resulting from minimizing fixed costs is a surprise to no one. However, we now have a convenient tool for planning maximum profit in that when all has been done that can be done about the fixed costs, we need only plan for maximum P.C.

For the moment, let us assume that your company has studied and analyzed the fixed costs and reduced them to a practical degree consistent with maintaining a going concern. Then, it is clear that to maximize Profit, we need only to maximize P.C.

### Maximizing P. C.

There are only four ways to do this:

1. Reduce variable costs.
2. Increase sales prices.
3. Increase sales volume.
4. Improve product mix.

A combination of these four methods is usually employed.

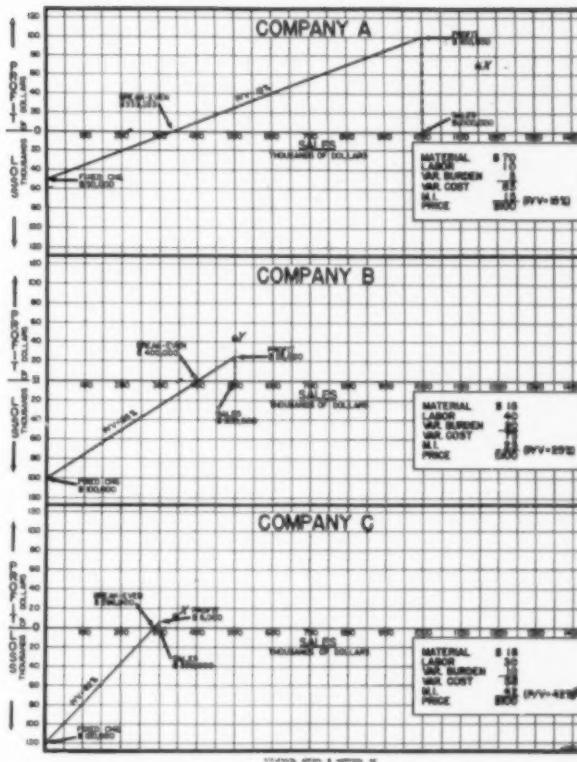
The effect of the first two methods is pretty well understood by everyone. However, few people realize that after the breakeven point has been passed, the increase in profit due to an increase in volume is equal to the increase in volume multiplied by the P/V ratio and is therefore substantially greater than the usual measuring stick of profit per dollar of sales.

The effect of the fourth point, product mix, is rarely understood and can never be evaluated without determination of the P/V ratio which, as previously mentioned, requires a prior separation of all fixed and variable cost components. We shall deal at length with the problem of product mix later.

### The Profit Diagram

Once the concept of the P/V ratio has been grasped, it is possible to make a very simple profit diagram which is extremely useful in profit planning because it permits almost instant evaluation of the effect on profit of almost any proposed move which bears upon costs, prices, or volume. Furthermore, executives need not be sophisticated in accounting techniques to understand the effects. Exhibit I shows the profit diagram for three separate companies.

Exhibit I



Referring to Company A, sales are laid off on the horizontal scale. In this instance sales amount to \$1,000,000 per month. The fixed costs are laid off on the vertical scale downward from the origin and amount to \$50,000 per month.

From the cost data, we find there is a total of \$85 of variable costs per \$100 of sales so that the M.I. is \$15 and the P/V ratio, therefore, is 15 percent (\$15 divided by \$100.) By constructing a sloped line at 15 percent slope and starting at the amount of fixed which has been laid off, we immediately develop the breakeven volume of \$333,333 and profit of \$100,000 at the \$1,000,000 sales volume.

We can now read the profit at any sales volume without going through any calculation relating to over-or-under-absorption of overhead, or profit on sales, or anything else.

We can immediately see the effect on profit and the breakeven point for any change in the fixed costs as it merely changes the intersection on the lefthand axis, the sloped line remaining parallel to the one already drawn.

Also, if we change the variable costs, or the prices, we will have a corresponding change in the slope of the line which can be easily calculated in the same manner as previously explained. Having drawn the new slope line, we can quickly read the new breakeven point and the new profit.

It is convenient at this point to introduce another definition - the Margin of Safety. The margin of safety is the amount of sales which can be lost before reaching the breakeven volume. In the case of Company A this is \$666,667.

Note that Company B has a much lower margin of safety, and Company C has a very small margin of safety, even though the P/V ratio in both cases is higher than for Company A. It is evident that Company C, for example, would profit handsomely from a slight increase in volume, whereas a comparable increase in volume for Company A would not add so much to profit. An additional \$100 sale increases Company C's profit by \$42!

For the sake of simplicity, we will assume for the moment that each of the three companies has only one product.

#### Examples of the Use of the Profit Diagram

A. A sales manager has determined that a five percent price reduction will increase sales by 15 percent. It is wise?

Company A now has a profit of ten percent on sales, and Company C has a profit of only two percent on sales. Without the P/V concept, it seems that, with only 15 percent volume increase, it would not be wise for Company A, and certainly a five percent price reduction would be disastrous for Company C.

Let us see what the facts really are: From the following simple calculation, the P/V ratio for Company A falls to 10.53 percent, and to 39 percent for Company C.

	Company A	Company C
Price drops to	\$95 per unit	\$95 per unit
P. C. drops to	\$10 per unit	\$37 per unit
P/V drops to	10.53% (10/95)	39% (37/95)

Drawing to the new slope line and extending them both to the 15 percent volume increase, it is quickly apparent that the total profit for Company A would be seriously diminished, and total profit for Company C substantially increased. Note point "X" on the profit diagrams.

The same story is easily determined mathematically. In Company A a P/V ratio of 10.53 percent applied to \$1,150,000 of sales yields an M.I. of \$121,100, whereas previously it was \$150,000; the loss in profit would be \$28,900.

On the other hand, in Company C the new P/V ratio of 39 percent applied to the new volume of \$345,000 yields an M.I. of \$134,550 compared with the previous figure of \$126,000, or a gain profit of \$8,550. The answer to the sales manager's proposal in Company A is not to reduce prices. In Company C, the answer is the opposite; profit will be more than doubled.

B. An increase in the advertising appropriation of \$10,000 per month is under consideration. How much additional sales are needed to offset the increased appropriation?

It is common to establish advertising budgets in terms of percent of sales. With this type of thinking, since Company A's sales are about three times the sales of Company C, there is at least an inference that Company A can more readily increase its advertising appropriation, particularly because the absolute amount of profit is so much greater.

However, with a 15 percent P/V ratio for Company A, it is clear that additional volume of over \$66,000 is required to just offset the \$10,000 appropriation (\$10,000 divided by 0.15 equals \$66,667). Company C enjoys a 42 percent P/V ratio and therefore would need only \$23,800 in increased sales to offset the appropriation.

Using the graphic method, all one needs to do is to draw the slope line parallel to the one shown on Exhibit I so that it intersects the left-hand axis at a point \$10,000 lower than shown on the chart, and it is then possible immediately to read a sales volume required to make the same profit as shown on the chart.

However, regardless of whether the graphic or mathematical approach is used, the main point is that the P/V ratio leads to an accurate determination which is quite different from the answer that ordinarily would be secured.

C. A redesign of product is contemplated which would save 10 percent of materials and five percent of labor. Development and retooling costs would be \$20,000. Should the move be made?

Let us now compare the situation for Company A and Company B. Of course, using the tabulations which appear on Exhibit I, it is not necessary to use the P/V method to decide that it would be a good move. As shown in the following calculations, there would be a profit improvement of \$75,000 per month for Company A, and \$17,500 for Company B.

	Company A	Company B
Material Savings	\$ 7.00 per unit	\$ 1.50 per unit
Labor Savings	<u>.50</u>	<u>2.00</u>
Total Savings	<u>\$ 7.50</u>	<u>\$ 3.50</u>
Original M.I.	<u>15.00</u>	<u>25.00</u>
New M.I.	<u>\$22.50</u>	<u>\$28.50</u>
New P/V	22.5%	28.5%
New Total M.I.	<u>\$225,000</u>	<u>\$142,000</u>
Old Total M.I.	<u>150,000</u>	<u>125,000</u>
Profit Improvement	75,000	17,500
New Profit	<u>\$175,000</u>	<u>\$ 42,500</u>
New Breakeven (Fixed divided by P/V Ratio)	<u>\$222,000</u>	<u>\$350,000</u>

However, additional light is thrown on the matter by referring to the profit diagram. The new profit would be as indicated by the letter "Y". The new breakeven for Company A would drop to \$350,000. While it is a welcome reduction for Company A, this company already has a very adequate margin of safety, but since Company B's margin of safety was dangerously small, the increase is quite important as assurance of maintenance of the profit position. Therefore, even though profit improvement is no so great for Company B in terms of dollars, it is a very important step to this company in terms of the improvement in the margin of safety, and the fundamental profit structure.

Note also that if Company A's sales had been \$500,000 (the same as Company B), the reduction of breakeven point and the consequent improvement in the margin of safety would be extremely important to Company A.

The P/V concept permits evaluation of the proposed reduction in variable costs in terms of the entire profit structure of the enterprise, as well as the obvious improvement in profit. Only the obvious improvement in profit is readily determined by conventional methods.

**D.** The question of expanding the sales force is often a troublesome one. In Company A profits are ten percent of sales, and in Company B, five percent of sales. Assuming that it costs \$10,000 a year to support a salesman in the field, it would require \$100,000 of additional volume for Company A to break even on the addition of one salesman and additional volume of \$200,000 for Company B. Even though Company B's structure is weak because of the low margin of safety and volume is obviously important to them, it would take a considerable amount of courage to add a salesman when the average salesman is producing now only \$60,000 of sales.

But note that Company B has a P/V ratio of 25 percent; therefore, additional volume of \$60,000 yields additional M.I. of \$15,000 which leaves \$5,000 additional net profit after paying the \$10,000 cost of a salesman. Furthermore, a needed improvement in the margin of safety would result. It is wise to add a salesman.

On the other hand, Company A, with only 15 percent P/V ratio would have \$9,000 additional M.I. at a cost of \$10,000 for the salesman and it would not be wise to make this move.

These sound decisions contrast sharply with the ordinary approach which, as we have seen, indicate that in neither company should a salesman be added, and most certainly not for Company B.

For this particular problem, a note of warning should be given. Even assuming an adequate market potential, if a great number of salesmen are added, it will inevitably reflect in greater clerical and administrative costs which could increase the fixed charges to some extent although such an increase rarely occurs with the addition of only one or two salesmen. However, if the expanded sales force does require more fixed charges in the home office, it is very easy to see the effect on the breakeven point, margin of safety, and the profit by simply starting the slope line at a point in the lefthand axis lower than shown on Exhibit I by the amount of anticipated increase in fixed costs.

The foregoing are some fairly simple examples and I am aware that each of them can be analyzed without the use of the profit chart and the P/V concept. Although in some cases the analysis might become rather involved by ordinary methods, I imagine that no reader of this article would have any particular difficulty. However, it usually is quite difficult to make those not sophisticated in accounting procedures to understand some of the involved calculations, particularly as they relate to under and over-absorption of overhead.

In addition to being accurate, it has been our experience that after any executive once comprehends the simple P/V technique, it is much easier for him to gain a real understanding of your recommendations by this method.

When we approach the problem of product mix, it becomes extremely difficult for those not thoroughly versed in accounting procedures to comprehend the effect on profit and on the profit structure of the enterprise resulting from change in product mix.

#### Product Mix

The P/V concept does a great deal to clarify

this problem and usually leads to more valid conclusions.

The XYZ Company has three products (or product lines). Detail of cost, price and profit is shown on the upper section of Exhibit II. The fixed burden is exactly absorbed at the sales volume indicated. Total fixed burden amounts to \$270,000 per month and the profit is \$131,000 per month.

The second set of calculations on Exhibit II develops this same profit figure by subtracting the total fixed of \$270,000 from the total M.I. of \$401,000.

#### Exhibit II THE XYZ COMPANY

ITEM	PRODUCT A	PRODUCT B	PRODUCT C	SUMMARY
DIR MATERIAL	\$ 70	\$ 15	\$ 18	
DIR LABOR	10	40	30	
VAR. BURDEN	5	20	10	
FIXED BURDEN	5	20	40	
TOTAL COST	\$ 90	\$ 95	\$ 98	
SELLING PRICE	100	100	100	
PROFIT/UNIT	\$ 10	\$ 5	\$ 2	
UNITS SOLD	10,000	5,000	3,000	
PROFIT	\$ 100,000	\$ 25,000	\$ 6,000	\$ 131,000
SELLING PRICE	\$ 100	\$ 100	\$ 100	
VAR. COST/UNIT	\$ 85	\$ 75	\$ 58	
M.I./UNIT	\$ 15	\$ 25	\$ 42	
MARGINAL INCOME	\$ 150,000	\$ 125,000	\$ 126,000	\$ 401,000
			FIXED CHG.	\$ 270,000
			PROFIT	\$ 131,000
UNITS SOLD	3,000	5,000	10,000	
"PROFIT"/UNIT	\$ 10	\$ 5	\$ 2	
"PROFIT"	\$ 30,000	\$ 25,000	\$ 20,000	\$ 75,000
M.I./UNIT	\$ 15	\$ 25	\$ 42	
MARGINAL INCOME	\$ 45,000	\$ 125,000	\$ 420,000	\$ 590,000
			FIXED CHG.	\$ 270,000
			PROFIT	\$ 320,000

From the first set of figures, Product A shows a profit of ten percent on sales, and Product B has a two percent profit. It is only natural that the sales emphasis be placed on promoting Product A and that Product C be de-emphasized.

The P/V concept shows this to be precisely the wrong course to follow.

Product C has a M.I. of \$42 per \$100 of sales (P/V of 42%) whereas Product A has a P/V of only fifteen percent.

Let's see what would happen if sales of Product C were increased to 10,000 units and sales of Product A reduced to 3,000 units, holding the original volume of 5,000 units of Product B. Total sales will be the same.

As shown at the bottom of Exhibit II, the total M.I. rises to \$590,000. The fixed burden, of

course, remains the same at \$270,000 so the profit is now \$320,000 instead of the original profit of \$131,000.

The significant fact is that this profit improvement has been accomplished by following precisely the opposite course from the one indicated by the usual approach. Perhaps even more important, the desirable course of action is clear to any executive.

The accountant, of course, could arrive at the same conclusion by pointing out that burden would be under-absorbed on Product A and over-absorbed on Product C so the net over-absorption amounts to \$245,000 which, if added to the indicated profit of \$75,000, would result in a net profit of \$320,000. There is serious question whether the executives at the policy-making level would understand the involved calculations and even greater doubt they would ask to have them made. Further, it is most unlikely they would ever think of emphasizing a two percent profit item at the expense of a ten percent profit item.

The P/V concept provides a superior means of communication between executives at the policy-making level and those who know and understand the detail and implications of all the facts entering into the calculation of "cost" and "profit".

By this time you have all probably noted that the figures for Products A, B and C of the XYZ Company (Exhibit II) are identical with the figures for Companies A, B and C of Exhibit I. As we have seen, Company C needs volume. Is it not also reasonable that Product C should be promoted?

(See facing page)

For most executives, the data of Exhibit II is even more easily interpreted if presented in a diagram per Exhibit III. The contributions of Products C, B, and A are represented by the three segments of the slope line. This diagram is a picture of the data contained in the upper part of Exhibit II. It represents the initial product mix.

Since the slope of segment C is steeper than the slope of segments B and A, it is self-evident that increasing volume on Product C will yield a greater increase in profit than for either of the other two products.

Exhibit IV shows graphically the M.I. for each of the three products and the total profit after the mix has been changed to 10,000 units of Product C, 5,000 units of Product B and 3,000 units of Product A. The chart tells the same story as the figures at the extreme bottom of Exhibit II. It shows how profit has been maximized by maximizing M.I. through the process of improving the product mix.

Exhibit III

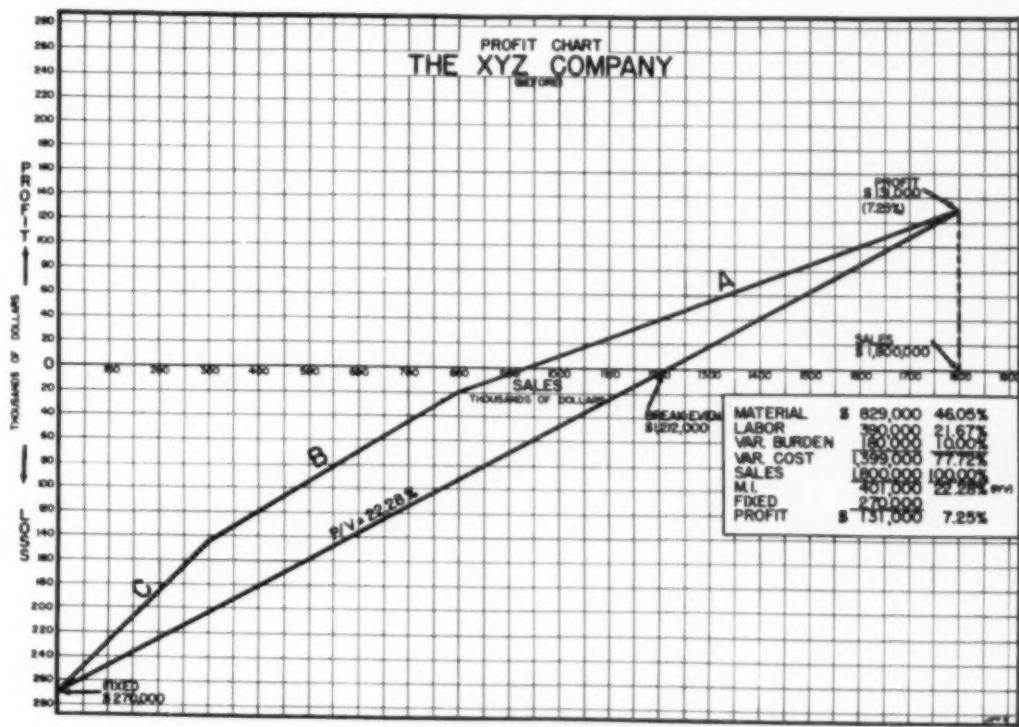
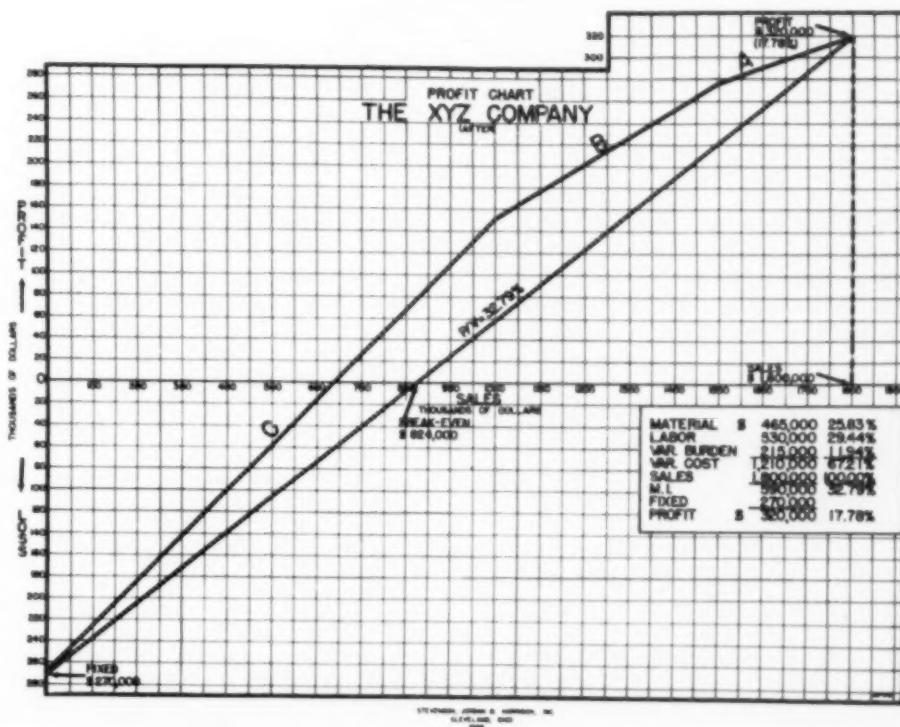


Exhibit IV



Note also that the breakeven volume for the company is now approximately \$824,000 sales per month whereas before improvement in the product mix the breakeven volume was approximately \$1,212,000. Not only does the company make more profit at any volume but also the volume can shrink considerably lower before going into the red.

A dramatic shift in product mix, as illustrated by this example, is very seldom accomplished quickly. The important point is that policies be established so as to pursue a trend in the correct direction rather than inadvertently in the wrong direction.

In addition to the examples presented in the foregoing, the P/V technique has important implications on decisions relative to market expansions, sales territories, plant locations, capital investment — indeed it is useful in any matter bearing upon planning for the maximum obtainable profit from the operation of the enterprise.

I want to mention one other use that is of current importance to a good many companies. If you will plot quarterly profit figures (before income tax) for your own company for the last 24 quarters against sales volume and then draw line of best fit to the first 18 points, you will have a crude sort of P/V chart. If your company is typical, the last six points will tend to fall below the line. In our long period of boom times, profits have been maintained at a seemingly satisfactory level largely by reason of increased volume but the underlying profit structure has often degenerated.

Usually the erosion has been gradual and unnoticed until volume has slacked off or just failed to rise at the customary rate.

While this simple chart will not tell how much of the degeneration has resulted from increases in fixed costs and how much from a narrowing spread between revenue and all variable costs, it will probably show that some drastic action is indicated if a satisfactory breakeven point and

margin of safety are to be re-established.

A recently published article stated:

"When business historians look back over the past decade, they are sure to struck by the unprecedented growth of company after company and industry after industry. They will, no doubt, be impressed by the extraordinary benefits brought by this rapid expansion; but they will certainly note that it carried a cargo of problems as well.

"Not the least of these has been the encrustation of many firms with procedures, people, and services that have added many dollars to operating expenses without producing any corresponding income — or, at least, not enough to justify the expenditure. When a company is growing fast and making money, these barnacles accumulate and no one cares very much. In quieter or less prosperous times, the business managers have both the opportunity and the incentive to check their organizations periodically and scrape them clean; but with the pressing problems of growth occupying all their attention and the profits continuing to mount up, the anti-fouling job is often neglected.

"Furthermore, this expansion has been taking place in an environment of ever-accelerating change. Under these circumstances, once-important activities become outmoded almost overnight; thus, company after company has accumulated encumbrances too heavy to carry today."

Much of our work in recent months has been to assist our clients to correct such conditions and to re-examine policies relating to product mix and the corollary problems of marketing and pricing policies.

Each of us has a special responsibility today to his own company — and to himself — to take an especially hard look at profit leaks which have crept into his business and to search out the opportunities for profit improvement. With very few exceptions, the opportunities are there. The P/V technique is one powerful tool which can be used for this purpose.



By: R. E. Hambrook  
Executive Vice President  
Pacific Telephone Company  
San Francisco, California

# TOP MANAGEMENT

## and THE BUDGET

Perhaps, it's the mark of a lazy editor, but after due consideration it appears wrong to confuse the issue by trying to change this speech to an article and thereby lose the personalness which prevails throughout this talk. The message is real, the "view" point original, and the expressed philosophy is sound. You will note that we placed the word "view" in quotes. The utilization of word "view" as synonymous with "budget" is unique and deserves your critical appraisal. Refer to the text for further amplification of "view."

I am honored that your chapter president, Al Ellison, asked me to speak to you tonight. Al has wrestled with the problems of making and carrying out budgets for a good many years. The active part which he has taken in the organization and development of your chapter of the National Society for Business Budgeting is typical of the energy and enthusiasm which he has brought to every assignment which he has had.

I take it that in inviting a speaker you do so for these reasons —

1. To find out his general views on your intriguing subject — budgets.
2. What techniques in preparing and using a budget his business has developed, and how they may be useful to you in your responsibilities, and
3. To spend a convivial hour amid personages and scenes contributing to good fellowship and the enhancement of your profession.

The latter is your contribution — I am the excuse — and I might add, your contribution up to this moment has been very great. As to the first two reasons, I shall endeavor to meet their challenge as successfully as you have the third.

Before really getting under way I would like to get a few general observations off my chest concerning budgets.

**FIRST** — What is a budget? Of course, it is a statistical statement showing what a concern expects to take in — pay out — and keep as profit. But beyond this, a budget is the expression of the philosophy of management — its aims — its ideals — and the road management expects to travel in successfully reaching these aims. A budget, therefore, is not a cold sheet of figures, but a living, expressive document to be prepared with great care and regarded with great respect. It is "a coordinated plan for the operation of the business, expressed in Financial Terms".

**SECOND** — Where does the budget fit into the general scheme of management? In our American way of life, the main goal of business — whatever the secondary goals may be — is profit. Without profit a business dies — with small profit it cannot do those things we expect of progressive business. A budget then is a road map of management's determination to make a profit. Without it, management's direction is confused, and its course toward the profit goal uncertain. I should like to dwell on those points at greater length later on.

Management problems differ between different businesses but certain fundamentals exist

among all. I shall draw heavily on my experience in my business - the telephone business - and while it may differ in respects from yours, I am sure you will find much similarity in fundamentals.

Let me mention a few things about our company and its organization, to provide an understanding of why our budget work is done as it is. Pacific Telephone is the largest of the Bell System operating telephone companies. We serve the entire West Coast from Canada to Mexico, plus the State of Nevada and a small part of the State of Idaho. We provide telephone service to over four and a half million subscribers with nearly seven million telephones in 2000 cities, towns and communities. We have over 83,000 employees who are nearly as dispersed geographically as the telephones they service. This large size and dispersion give us, we believe, some unique problems. In order to cope with them we have a high degree of delegation of authority and responsibility. We have split our operations, by geographical lines, into six operating areas: Washington-Idaho, Oregon, Northern California, Los Angeles, Southern Counties and Nevada. Each of these operating areas is headed by a General Manager who has wide authority and responsibility. Each of these General Managers has reporting to him four major department heads: a General Commercial Manager, a General Plant Manager, a General Traffic Manager and a Chief Engineer. An Auditor, or Chief Accountant, reporting to the Comptroller of the Company in San Francisco is established in each area and works as a part of the General Manager's team.

By giving each General Manager such authority and responsibility, we free our Company's top management for their primary function: the determination of broad company policy and the passing of that broad policy to the General Managers for execution. Now, let us see how this works with respect to the budget function.

#### **Functions of Management**

It seems to me that there are three major functions of management which all management -- top, middle, or lower -- must carry out if it is to manage. These are the functions of planning, organizing and controlling. Although budgeting is concerned with all of these, it would appear to fall primarily in the area of planning. In fact, it is the final step in planning. But before there can be a final step, there must be a first one.

The first step in planning is deciding what goal the company is seeking. Since 1927 we in the telephone business have publicly stated that our goal is -

"To furnish the best possible telephone

service at the lowest cost consistent with financial safety." We know we cannot meet these objectives without a profit. This matter of profit is one of grave concern with us. We are a regulated utility, subject in our intra-state operations to the Public Utility Commissions in California, Oregon, Nevada, Washington and Idaho, and in our interstate operations to the Federal Communications Commission. When it is necessary to reprice our services we must do so through a long - 12 to 18 months - hearing process before those commissions and usually, we receive considerably less than we think the business needs - and I might add, a return less than other businesses around us. Thus we are not free to move prices as is the general case with most businesses.

On the other hand, our business is a demand business - we have to perform a service where and when the customer wants it. That is to say, we cannot "even up peaks" or control the volume of our work.

These two peculiarities of our business make our goal of adequate profits a first necessity if we are to provide the kind of service you expect.

The next step in planning is the making of long-term plans to meet these goals. This is a joint effort of many parts of our organization. For example - one consideration in making these plans is the quantity of service which we must provide in the future. Periodically, Al Ellison publishes a long-term look at the future requirements, five and ten years ahead. This shows how the population and the economy of the West is going to grow, and the trends which future demand for telephone service will take. Another consideration is the quality of service which we will want to provide. Scientific advances mean improvements in the quality of service. For example, we are now nearly finished with our long-term program of replacing manual telephone service with dial service, and are well along on another: that of providing customer dialing of long distance calls with automatic ticketing of those calls by electronic data processing equipment. Only after consideration of our long-term plans can a budget covering the immediate period ahead be prepared which will include the steps necessary to attain the long-term objectives.

#### **The Budget or View**

The final step is the budget itself. Actually, in our company you will never hear the word "budget" used. We call it the "View", and we have not one of them, but four. I stated earlier that a budget is a road map of management's determination to make a profit. I think this definition applies equally to what we call a "view". If there is a difference between what a budget is and what a "view" is, it is one of

rigidity. The "view" may be more flexible.

With any definition, however, the same words will mean different things to people with different backgrounds and experiences. There is a great difference in budget programs between industries, and even between companies in the same industry. But I am sure that you gentlemen are far more familiar than I am with these differences.

I mentioned that we use the word "view" in the telephone business, and not the word "budget". The use of the word "view" in our business goes back a good many years to the time when there was, I think, a good reason for the distinction. At that time the word "budget" implied rigidity -- if something was included in the budget you could do it; if it wasn't in the budget, you couldn't do it. Because our General Managers have the responsibility and authority to run their own operations, and because of our company's obligation to provide service when and where the public demands it, our budget must be flexible and not rigid. Now, I do not mean that our view is only a forecast -- it is not. Our view has the concurrence of all levels of management because it originates, as I shall tell you more about in a moment, not in our top management group, but in the operating groups which have to live with it. But no one can foresee a flood which may cost us hundreds of thousands of dollars in maintenance expense. Nor can anyone foresee a sudden change in the demand for telephone service which results from unforeseeable and uncontrollable causes. The General Manager is charged with meeting these unforeseeable contingencies, and has to have the authority to do so.

In Pacific Telephone we believe that controls must be established in all aspects of our business. One of the best tools we have for controlling is the "view". Each month, actual operating results are compared with those shown in the view for that month and corrective action is taken, or our plans are modified (and reflected in adjustments to the view) in order to make the view realistic. And, in my opinion, the realism of the view is of the utmost importance. It is such an important tool and is used for so many purposes of the most vital nature that if it is not realistic, it is not only worthless, it is downright dangerous.

Realism in a view can be attained; but it must not be attained by having a rigid and inflexible view. It must, rather, be attained by careful planning and forecasting of revenues and expenses at the time the view is prepared. Underrunning of revenues, and overrunning of expenses -- either of which will reduce the earnings of the company -- are extremely serious. The level of earnings of our company in the entire postwar

period has been low. This has required us to plan very conservatively and to omit, or delay, doing some things that would be beneficial to our customers. We expect that every management decision must be made with an eye to meeting those plans, with the profit objective always of paramount concern.

#### Management Philosophy

Because our views are prepared by the operating people who, in the final analysis, must live up to the objectives set in the view, they reveal the management philosophy of our operating people. Do they expect to drive hard in meeting job requirements at an acceptable cost level? What is their sense of proprietorship in weighing the value of an activity against the cost of doing it? In preparing a view there are always more things to do than can usually be accommodated. So there is a priority of jobs, or things to do. There are those jobs which must be done now; there are those which must be done sooner or later, but which can be postponed until a more favorable time; and there are those jobs which should be done and which we would like to do, but which can be postponed for much longer periods of time. Then, too, there are different ways a job can be done. We would like to do every job in the way which is the most economical in the long run. But the way which is the most economical in the long run is not necessarily the smallest expenditure in the short run. For example -- sometimes when we are in the midst of a poor earning period we are forced to do only the jobs which must be done now, and do them in the way that requires the smallest expenditure. To the extent that our area management people incorporate these things in their plans and reflect them in their views, we, in top management, can see the way they are thinking, their "will-to-do", and their willingness to accept and carry out those things which must be done to maintain the integrity of the company's earnings. The example I have given here is an unhappy one. But there are other examples I could give. The view reflects what is being done in the way of training our people for greater responsibility, and for new and changing jobs which have come about through improvements in technology. It reflects the extent to which our area management people are planning to incorporate those methods and equipment which contribute to the continued improvement of the service we give our customers. In short, the view tells us how our management people are thinking about the future of our business, and their "will-to-do" in carrying out the broad policy which our top management has given them for execution.

It also tells us something about their civic consciousness. It tells us what our management is doing to carry out the civic respon-

sibility of our company in each community we serve. To the extent that our management incorporates in its views the jobs which assure the continued improvement in quality and quantity of service available in each community, they are carrying out our civic responsibility to contribute to the growth and development of those communities.

#### Scope of the Budget or View

I said that we have not one View, but four. They are:

1. Operations View;
2. Capital Requirements View (or Construction Program);
3. Cash Requirements View;
4. Financial Program View.

The "Operations View" shows the expected results of the Company's operations stated in the form of various items of income and expenses, and earnings on total capital and per share of common stock. It is prepared monthly and covers the current year by months and the succeeding year by quarters.

The "Capital Requirements View" (or Construction Program) shows in dollars the plans to make available, when and as required, the lands, buildings, central offices, station equipment, and outside plant additions which will be necessary to meet the Demand Forecast for telephones, and the facilities required to handle additional toll and local calls. It also includes such plant replacement and construction work as may be necessary for other reasons. This View is prepared quarterly, and covers the current and succeeding years by quarters, and the following four years for the years as a whole.

The "Cash Requirements View" forecasts our cash position and is used in planning our short-term borrowings from banks or other sources. It is prepared monthly, and covers the current year only, by months.

The "Financial Program View" shows the new capital we will have to raise by selling additional bonds and/or stock. It is prepared monthly, and covers the same period as the Operations View, that is, the current year, by months, and the succeeding year, by quarters.

We have not always had views which cover so many things, or which were prepared so frequently. Over the years I have seen the gradual evolution of the view, or views. The increasing tempo of business life, the enormous growth of our economy, and the rapid improvements in technology have made the planning function increasingly important. This is true of all

business, not just ours. Thus the function of budgeting has become increasingly important. And with that increase in importance has come an increase in the study of the methods and techniques of budgeting and forecasting. The existence of your Society is itself evidence of this. Thus, while I have told you what our view consists of today, I know that its evolution is continuing and that the contributions made by you men and others like you will make the views and budgets of the future far better and more significant management tools than they are today.

#### A View is Born

I said that our views are prepared by the operating people who have to live up to their objectives. There is a good reason for this, or rather a number of good reasons. One reason is that when people prepare their own plans for the future, they have faith in the plans, they believe that the objectives are capable of attainment, and they have a real desire to attain the objectives -- if for no other reason than that they would lose face if they failed to do so. This reason is a good one for having the view prepared by our operating people, and it would probably suffice under any circumstances. But there is still another reason and, in our company at least, it is an overriding reason. It is size.

In a book entitled "Business Budgeting", Professors Sord and Welsch, of the University of Texas, show the results of a survey on how budget goals are established. In only one per cent of the cases were the goals established exclusively by higher management without consultation with subordinate levels of management. In fourteen per cent of the cases the goals were developed by higher management and were submitted to subordinate management for consideration and comment prior to adoption. But in eighty-five per cent of the cases the goals and objectives were developed by subordinate management and submitted for review and final approval by higher management. There was another interesting pattern in the results of this study: The larger the business, the more often the goals and objectives were developed by subordinate management. In light of our own thinking at Pacific Telephone, this is hardly surprising. While we are a relatively small business in each community we serve, in total we are a big business.

The sheer magnitude of planning and budgeting for a working force of 83,000 people is such that the job could not be done effectively, if at all, by our higher management, even if they wanted to do it. The job simply has to be delegated down the line to the point where it is within the ability of human beings to do it.

Thus our views are born in the operating

areas. They start with a forecast of station movement. This is a forecast of the telephones which the public will ask to be connected and disconnected, and it is done by the Development Engineer in each area. He works in the Commercial Department, which is under the jurisdiction of the area General Commercial Manager. But, of course, the Development Engineer does not make this forecast himself. These forecasts are developed by specialists who work directly with the Commercial Department Managers of the individual exchanges in the communities we serve. These local Managers are the men who really know what is going on in the communities. They know when some developer buys a piece of land to be subdivided. In fact, they probably know the developer personally and know his timetable for the completion of new homes. They know when a new industry is about to be established in the community, they know its needs for telephone service, and how many new people it will bring into town who will need residential service. They are men who live in the community, and they are directly and vitally concerned with the company's living up to its civic responsibility in the community. It is true that they do not always do a perfect job. But that is too much to ask of anyone. More often than not, however, when we fail to carry out our service responsibilities, it is because our earnings have not been high enough to enable us to do the job of expansion which our Managers have told us needs to be done.

When the Development Engineer has added up the station movement figures he has done the first, and basic step, in preparing the view. The difference between the Inward movement (or connection of telephones) and the Outward movement (or disconnection of telephones) is the station gain, or the increase in the number of telephones which the public is demanding. This demand for new telephone service is very sensitive to economic conditions. Thus the Development Engineer, on the basis of past experience, is able to check the accuracy of overall demand forecast for his area against the economic forecasts prepared by the Economics group in Al Ellison's organization. The Development Engineer then submits it to other departments in his area, particularly the Plant and Engineering Departments. There it is checked against available central office and cable facilities, and against available manpower in the Plant Department, to see whether the telephones actually can be installed. If it is cleared by other departments, the General Manager finally approves the "Demand Forecast" and the Development Engineer forwards it to Al Ellison who has a special group whose major responsibility is the View. There the Demand Forecasts from our six operating areas are summarized to a company total and are further checked for inconsistencies. If the Summarized Demand Forecast passes the tests,

Al submits it to the Operating Vice President who has his staff review it. If it passes again, the Operating Vice President submits it to the President for review and approval.

I have told you of the procedures used to obtain an approved forecast of future demand for telephones to illustrate three things — the level of management which finally does the approving, the many checks made of the View to insure its accuracy, and the complexity of making the View. Actually, the complexity has not yet begun. When the Area Development Engineer finally gets his Demand Forecast approved, the real work of preparing the View is just beginning.

#### **VIEW WORK JUST BEGINNING**

The Chief Engineer uses the Demand Forecast to prepare the construction projects necessary to provide the service which will be demanded — central offices, pole lines, cable, and wire — as well as the expenses of his own organization.

The Plant Department uses it to plan for the men and materials necessary to install and remove the telephones according to the station movement in the View, in addition to the construction work they must do to effect the plans of the Chief Engineer.

The Commercial Department uses the Demand Forecast to prepare its View of revenues and of Commercial Department expenses.

The Traffic Department uses it to prepare estimates of toll messages (which also have to be used by the Commercial Department in making the View of revenues) and of routings of messages (which have to be used by the Chief Engineer in planning cable and wire lines), as well as the View of Traffic Department expenses.

The Auditor uses it in making his views of Accounting Department expenses.

All of these views on revenues, expenses and capital requirements which stem from the Demand Forecast, and are coordinated at each level of management and finally the view for the area is assembled by the Area Statistician who works for the Area Auditor. This is the "Operations View". At the same time, the Chief Engineer in each area is working with the engineering staff of the Operating Vice President in preparing the "Construction Program View".

The Operations View is reviewed by the Area Statistician, working directly with the departmental people who have prepared it. Next it goes to the Area General Manager. After he

has approved it, the Area Statistician sends it to Al Ellison. Al's "View" people consolidate the views of the area into a view for the company and compute certain items which can be done only for the company as a whole (such as Federal Income Taxes) and arrive at a per cent return on total capital, and at earnings per share of stock. At every reviewing point the View has been checked for consistency and with the economic forecasts. Finally, Al submits the View to the Operating Vice President who, if he approves it, submits it to the President for approval.

### Exercise of Control

Now that the Operations View is approved, let us see what happens. Each month, as the operating results become available from our Accounting Department, they are compared with the View for the month. Statements and charts showing variances between estimated and actual results, and the reasons for them, are prepared by the operating departments in the Areas and submitted to the Area Statisticians. They forward them to the Chief Statistician, Al Ellison, who consolidates them for the whole company and supplies the results to our top management. These analyses of variances are used by our top management to take corrective action -- that is, to get the General Managers to adjust their operations to attain the original goals -- or to adjust future Views -- so as to get the General Managers to make their views more realistic in light of requirements. Thus the analyses contribute to the body of knowledge about our operations and lay the foundations for future Views.

### Organizing for the View

Before going on to the uses which top management makes of the View, I would like to mention something about the organization necessary to produce it. I imagine from the description I have given you of the preparation of the View -- and I assure you that I have terribly over-simplified it -- you must think that everybody and his brother are involved. Actually, the work of coordinating the View-making efforts of the many people who contribute is well-defined and carried out for the company as a whole by the Chief Statistician, Al Ellison, and in the areas by the Area Statisticians. All of these men are in the Accounting Department. I think this is where the direction and coordination should come from.

I said before that I thought a good definition of the budget would be -- "A coordinated plan for the operation of the business, expressed in financial terms." The people in our company who are specialists in financial terms are the people in the Accounting Department. They understand the terms and they have had the accounting experience which is so desirable in

auditing, if you will, the View for reasonableness. In addition, the economic forecasts, which are so important in planning, originate in the Chief Statistician's organization. Also, the statisticians have available, in their own shops, a great body of historical data which is useful in making and checking the Views. Thus, I believe that in our own company the job of "Budget Director" is well placed in the Accounting Department.

What I have said applies to our company, and I do not want you to think that I believe that every company should follow our example. Other businesses have other problems, and have to solve them in other ways than we solve ours. If our company were different from what it is, we might well use some other type of organizational structure. But our View-making organization has evolved along with the View itself. It seems logical to us that our budget direction is placed where it is in the organization -- and it works.

### The View and Top Management

Now, finally, I would like to talk about the uses to which we, in top management, put the View. I have said that it is probably the most useful management tool which we have. It tells us many things about the way our business is going, and gives us an opportunity to guide the business in the direction we think it should go.

It indicates whether the long-range plans, which we, in top management, have made and passed on to the General Managers for execution, are sound -- that is, whether the profit to be realized is satisfactory and will strengthen the company's financial position. Perhaps a good case in point is the program of replacing manual equipment with dial equipment. How fast can we proceed with such a program? If we go too slowly, we not only have adverse customer reaction, but we also have to bear the higher traffic costs associated with manual equipment. If we go too fast, our capital investment will rise out of proportion to the revenues, reducing the rate of return and making it even more difficult to obtain the new capital which we need to put the program into effect. The View is the tool which tells us how fast we can afford to go. If we are going too fast, the expected rate of return shown in the view will begin to drop and an analysis will tell us that going too fast is the cause. Thus we can defer some projects and adjust the View so as to maintain the integrity of our earnings.

In this connection, I would again like to stress the necessity for realism and accuracy in the View. Our obligation to provide service when and where the public wishes it, is rendered much more difficult by failure to predict our demand properly. The construction of telephone plant and equip-

ment takes time -- a lot of time. From the time when we decide to build a central office until that office is actually cut into use can be as long as three years. Moreover, we can use the product of that office -- telephone service -- only in the area where the office is located. There is no shifting of surplus facilities from one geographical area to another. In this respect we are different from almost any other business. Even the electric power companies are able to transport their electric power over great distances from their generating plants. But we must manufacture the service right where it is used and this makes our mistakes much more costly than those of industry generally.

#### CORRELATED DATA

The View gives us a basis for making management decisions of such items as wage programs, pension programs, and the like even without putting them in the View. By calculating the effect of such programs on an incremental basis and seeing what the effect on the View would be, we have a firm basis for deciding how far to go, and how fast to go, in putting such programs into effect. We do this regularly and it is of the utmost value in guiding our policy-making activities.

The View suggests to us where additional sales efforts might be directed or where repricing of services is necessary. The repricing of our services, when the rate of return drops due to higher costs of labor, materials, and plant and equipment, is a long and involved procedure. It entails proving to the Regulatory Commission in the state involved that price increases are necessary. It is often a year or more from the time we begin a case until we get an Order allowing us to reprice

our services. Thus accuracy in the View is once more emphasized. The View must be accurate if we are to come to logical conclusions on when, and where, to file a rate application.

The View also gives us an idea of where expenses might be further reduced, or increased. I have said "increased", in addition to "reduced", because it is possible to cut expenses too much. Our organization is a growing and developing one. If we are to have a source of management people to carry the company on into the future, we must be continuously training and developing people. This means that we must rotate people from one assignment to another. It means that we must often have people attending school. This costs money. It can be cut out, but only at an extremely high future cost. We, in top management, must guard against overzealous cost reduction which would adversely affect our development of people. Likewise, if we overdo the elimination of deferrable projects in order to cut costs in the short run, they will return to haunt us in the form of higher costs in the long run. The View, by telling us where and how our operating people are adjusting their operating costs, allows us in top management so to state the policies of the company to our General Managers that they will maintain the proper balance.

#### Conclusion

If I were to try to summarize the way that our top management looks at the View (or budget), I suppose I could say that it is the final product of all of the planning efforts of the company, and is the most useful single tool for guiding and directing the business.

#### \* \* \* PLEASE DON'T READ THIS \* \* \*

Please don't continue this filler. There is nothing of value to be gained, and it will do you no good. Why don't you turn the page? If you won't, you will only prove to me and yourself, and everyone who knows, that you do not have any will power.

This filler will do you more harm than good. If you don't turn this page, I will be forced to do something drastic. Just listen to me this once. Don't read the next paragraph.

All right, tell me, have you gained anything by reading this filler? If you have, you are not truthful. You have now wasted 45 seconds of your time. Was it worth it?

# 1959-60 NSBB



**ATLANTA** — **Raymond E. Fulton** — Born East Weymouth, Mass. 1/31/13 .... BS Degree Northeastern University 1934 .... School of Banking of the South-LSU 1955 .... First National Bank of Atlanta, October 1941 .... Has been Assistant Controller since September, 1954 .... Charter Member Atlanta Chapter NSBB.



**BRIDGEPORT** — **Leonard F. Perrini** — Budget Accountant for The Raybestos Division of Raybestos-Manhattan, Inc. .... Member of Bridgeport NSBB Chapter three years .... Served as Secretary 1958-59



**CALUMET REGION** — **Harold Bultema** — Born in Lansing, Illinois 33 years ago. .... Combustion Engineering, Inc. for 11 years, .... last four years of which have been in Budgeting ... Charter Member of Calumet Region Chapter NSBB .... Vice President and Membership Chairman in 1958



**CANTON** — **James B. Frost** — Graduate of Grove City College in Pennsylvania, and attended .... Harvard Business School and University of Pittsburgh's Graduate School .... Joined Diebold, Incorporated in 1955, .... appointed Assistant Treasurer in October 1956 .... Helped found Canton Chapter NSBB .... Was treasurer, Newsletter Editor and Program Chairman



**CHICAGO** — **Charles S. Holsteen** — Born in Burlington, Iowa .... BA Degree from State University of Iowa in 1930-Phi Beta Kappa .... One Year Scholarship at Harvard Law School .... Master's Degree Harvard Graduate School of Business Administration 1933 .... United Air Lines' Budgetary Control Programs for 13 years .... Married, he has a married daughter and a son .... Member Chicago Chapter NSBB since 1952 serving as Council Member, Program Chairman, Secretary, Second Vice President and then First Vice President .... Appointed to The Government Budgeting Committee of NSBB for current year.



**CINCINNATI** — **Richard F. Shaw** — Lifelong Cincy Resident 9/22/23 .... BS Degree Miami 1947 Phi Beta Kappa .... LLB University of Cincinnati 1949 .... Procter & Gamble Co. — October 1949, .... recently appointed manager of Food Products Cost Accounting .... Prior to this Manager of Budgets and Forecasts — 5 years. .... Married (Jean) 14 years, has 3 sons and a new baby daughter .... Member of Cincinnati Chapter since 1955, served as Membership Chairman, Council, Second Vice President and First Vice President .... Member of National Auditing Committee 57-58, 58-59 and is Chairman this year.



**CLEVELAND** — **M.J. Merriman** — Wilcox College of Commerce .... Thompson Ramo Woolridge Inc, since 1944 in Budgeting and Long Range Forecasting .... Married — has three children .... Served in Cleveland Chapter NSBB as Member of Research Committee: Chairman of Audit and Budget Committee, Treasurer, and Vice President and Program Chairman.

# CHAPTER PRESIDENTS



**DAYTON** — **A. R. Boge** — Hastings College, Nebraska 1932-1936 .... LaSalle Extension University of Chicago .... Standard Register Co. Since 1946 .... Member of an original Budget group N.A.B.O. in 1947, joined Dayton group upon organization in 1957 .... Married has a son in the Navy and one daughter at Home.



**DETROIT** — **E. L. Sherk** — BS Degree from Western Michigan University .... Wyandotte Chemicals Corp. since May 1955 .... In March of 1959 he became Accounting Manager .... Charter Member Detroit Chapter NSBB, Chapter Secretary from 1956 to 1959



**FOX RIVER VALLEY** — **George R. Morton** — University of Illinois — BS Degree in Electrical Engineering .... Northwestern University — Master's Degree in Business Administration .... Taught Industrial Management at Northwestern University Evening Division for five years. .... Charter Member Fox River Valley Chapter NSBB, was Vice President in 1958 and 59. .... Contributor to "Business Budgeting"



**HOUSTON** — **James E. Buenger** — Born Kenosha, Wisconsin, 1932 — moved to Texas in 1950 .... BBA and LLD Degree University of Houston, 1956 .... A.O. Smith Corporation of Texas since 1952, promoted to Administrative Assistant in 1957. .... Married and has two daughters .... Charter Member of Houston Chapter.



**INDIANAPOLIS** — **Irvin C. Muesing** — Indianapolis has always been home .... Attended Evansville College, Purdue and Indiana Universities .... Eli Lilly and Company in 1947 and is presently Senior Budget Accountant .... Charter Member Indianapolis Chapter NSBB, served as Treasurer, Brochure Chairman and Newsletter Editor.



**JOLIET-KANKAKEE** — **R. M. Timmerman** — BBA degree University of Wisconsin in 1948 .... A. O. Smith Corporation from 1948 to 1955 in Milwaukee, Wisconsin .... 1955 to present time at Kankakee, Illinois .... October, 1956 was appointed as Division Controller and Manager of Administrative Services of Permaglas Division .... Vice-President of Joliet Kankakee Chapter NSBB 1958-1959 .... Married and has two children.



**KALAMAZOO** — **Lloyd V. Dixon** — Western Michigan University, completed work with the International Accountant Society .... Married - he has two daughters and a married son .... With Upjohn Company in the Accounting Department from 1933 .... Transferred to the Budget Department in 1945

## MORE CHAPTER PRESIDENTS



**KANSAS CITY** — **Stewart F. Mitchell** — BBA and MBA Degrees Southern Methodist University .... Joined Allstate Insurance Company in 1952 as Branch Planning Manager in Dallas, went to Chicago in that capacity, now Zone Planning Manager West Central Zone .... Secretary of Dallas Chapter NSBB; Former Member of Chicago NSBB

**LOUISVILLE** — **John Mitchell** — Comptroller, Fischer Packing Company .... 38 years in the Meat Packing Business .... Served on Accounting Committees of meat packing organizations, spoke at their conventions and wrote articles on accounting for their magazines. .... Vice President Louisville Chapter NSBB 1958-59.



**LOS ANGELES** — **H. S. Gray** — Native of Mid-west, moved to Calif. in 1942 .... Western Air Lines, Inc since 1943, presently Director of Budgets .... Married - No Children .... Served as member of Chapter Formation Committee, Secretary, Membership Chairman and Vice President Los Angeles Chapter NSBB



**NEW MEXICO** — **Anthony J. Marsh** — BA Degree from University of Rochester .... Budget Administrator, Albuquerque Division, ACF Industries, Incorporated .... Before this he served as Staff Assistant to the Manager of their Buffalo plant .... Helped start the Niagara Frontier Chapter NSBB, serving as its First Secretary .... Led formation of the New Mexico Chapter .... Married and has three sons.



**NEW YORK** — **Erich W. F. Kittel** — Graduate New York Chapter - American Institute of Banking 1937 .... BA Degree Pace College, New York 1950 .... Employed, American Machine & Foundry Company, as assistant to budget manager .... Married and has two daughters .... New York Chapter NSBB was membership chairman, Secretary and Chairman of Finance Committee of 1958 National Conference held in New York. .... Served as Budget and Fiscal Officer at Merced Army Air Field.



**NIAGARA FRONTIER** — **L. C. Berger** — Westinghouse Electrical Corporation since 1935, in various capacities in different locations. .... Appointed Manager of Accounting of the Elmira Plant in 1955 .... Present position, Budget Manager of the Motor and Control Division, assumed in 1957 ... Vice President Niagara Frontier Chapter 1958

**Editor's Note:** These pages present only one-half of our Chapter Presidents.  
The next issue will contain resumes of the remaining Chapter Presidents.



## NEWS ABOUT MEMBERS

DONALD K. MAHAN, Cost Analyst, St. Louis-San Francisco Railway has transferred his membership to the St. Louis Chapter. He was formerly a member of Detroit Chapter.

DICK SEIBEL was appointed Treasurer of the St. Louis Chapter succeeding JOE KERVIN who was transferred to the Milwaukee office of A.O. Smith Company.

JIM HUGHES, who was Chapter President last year, has accepted the post of General Conference Chairman of the 1962 National Conference which will be held in St. Louis.

MERVYN GOODMAN of the St. Louis Chapter has a new position. He is Secretary-Treasurer of Coin-Acceptors Inc. of St. Louis.

The Milwaukee Chapter reports that ERNEST KRELL has been appointed President of Controls, A.G., the European headquarters of Controls Company of America. His new address will be c/o Controls, A.G., 34 Baarer Strasse, Zug, Switzerland.

Milwaukee further reports that HARVEY MILLER has been promoted to the position of Controller at General Merchandising Company, and that JERRY WOIT has accepted a new position as Budget Supervisor at the Clausen Works of the J. I. Case Company in Racine.

JOHN GALVIN of the Milwaukee Chapter has accepted the assignment of planning and co-ordinating the annual workshop on Budgeting Techniques which will be held February 9-11, 1960 in the new Wisconsin Center Building.

RED SWARTZ of the Canton Chapter was appointed to the N.A.A. National Research Project Committee. One of the objectives of this committee is to make a study of practical application of direct costing.

The CINCINNATI CHAPTER had a Past-Presidents' nite in October and six (6) out of seven (7) past presidents were able to attend. It is planned to make this an annual affair at one of the regular meetings.

ROBERT H. BOER, Secretary of the San Francisco-Bay Area Chapter was promoted to Secretary-Treasurer of a Standard Oil affiliate of Salt Lake, Utah. This necessitated his relinquishing his duties as Charter Secretary and JAMES CARLETON was appointed to succeed him.



MERRILL G. TUCKER has been promoted to Assistant Director of the Eli Lilly International Corporation's Administrative services division. He is responsible for the marketing service, sales and cost analysis, and financial statement and budget departments of Eli Lilly and Company's export subsidiary.

M. G. Tucker

HAROLD L. (HAL) COLTMAN informs us that he is now associated with Haskins & Sells as Manager, Management Advisory Services for the Portland, Oregon and Seattle, Washington offices of that firm of public accountants. We certainly want to wish him a great deal of success in his new position and if any of our members can assist him in anyway we know that it would be deeply appreciated. Hal was formerly a member of the Los Angeles Chapter and was National Secretary in 1958-1959.

A Chicago Chapter member, PAUL BISHOP of Illinois Farm Supply Company, received his C.P.A. degree in October. CONGRATULATIONS!

The Controllers Institute Research Foundation, Inc. has announced the publication of a research study and report entitled, "BUSINESS EXPERIENCE WITH ELECTRONIC COMPUTERS." It was prepared by B. CONWAY, J. GIBBONS and D. E. WATTS, Directors of Management Advisory Services, Price Waterhouse & Company, New York, New York. Copies can be ordered at \$5.00 each from Controllers Institute, 2 Park Avenue, New York 16, New York.

CHARLES L. HENDERSON of the Joliet-Kankakee Chapter was elected Secretary of a newly formed group called the Midwest Business Administrators Association of Christian Colleges. Charles is Business Manager of Olivet Nazarene College in Kankakee. He is also serving on a Development Committee for the improvement of business operations, budgeting, etc., of the 23 colleges of the Association of Christian Colleges in the state of Illinois.

The Calumet Region Chapter newsletter reports that DON BACON, National Vice-President, was promoted to Division Controller at R.R. Donnelley & Company.

Our national organization's Legal Counsel, WILLIAM R. BUGE, recently announced that he was a party to the formation of the partnership law firm of Ross, Buge & Amen in Cheyenne, Wyoming. Bill will continue to serve the society as Legal Counsel. We wish to extend the Society's best wishes for success of the new enterprise.

# **BOARD OF DIRECTORS MEETING**

## **Valley Forge, Pa.**

### **October, 1959**



**Presiding**

R. Visscher Millar — Pres.  
Arthur D. Moor — Vice Pres.



**New Chapter**

Al Schaake Accepts  
Charter of Boston  
Chapter.



**Recognition**

Award Presentation To Vern Kowalsky  
in Recognition of Outstanding 1959  
Conference.

## **BOARD MEMBERS**



**See next page**

## MORE BOARD MEMBERS



### TOLEDO, OHIO ACCEPTED

**By Board of Directors as 36th Chapter**

The Board of Directors of NSBB unanimously accepted the petition of a Toledo, Ohio group headed by R.W. NOPPER of Johns-Manville Fiber Glass, Inc. to be the 36th Chapter of the National Society for Business Budgeting. Charter members at this stage include:

**C. W. MEYER** — Assistant Comptroller & Assistant Treasurer, The Electric Auto-Lite Company  
**JOHN C. CHEZEK, JR.** — Budget Supervisor, National Lead Company, Noehler-Jarvis Division.  
**EMIL V. GAUDIER** — Assistant to Division Manager & Controller, Mead Containers  
**RAYMOND E. HAYNES** — Cost and Budget Department, Johns-Manville Fiber Glass, Incorporated  
**CLAUDE L. LEWIS** — Budget Director, The Toledo Edison Company  
**STANLEY E. FORD** — Assistant Treasurer & Controller, Cataphote Corporation  
**C. E. MILAM, JR.** — Budget Accountant, Cooper Tire & Rubber Company  
**C. ROBERT CAIN** — Assistant Controller, Cooper Tire & Rubber Company  
**ROBERT B. JOHNSTON**, — Treasurer & Assistant Secretary, The Bingham-Herbrand Corporation  
**JOHN F. WALLACE** — Cost & Budget Supervisor, Bingham Stamping Division, The Bingham-Herbrand Corporation  
**WALTER W. FRANTZ**, — Assistant Division Controller, Bingham Stamping Division, The Bingham-Herbrand Corporation  
**WAYNE M. KETNER** — Owens-Corning Fiberglas Corporation  
**RICHARD W. NOPPER** — Johns-Manville Fiber Glass, Incorporated

### ADDITIONAL CHARTER MEMBERS OF THE NEW MEXICO CHAPTER

**J. DURWOOD YATES** — Budget Examiner, U.S. Atomic Energy Commission  
**WILLIAM C. STEIN** — Vice President and Comptroller, First National Bank in Albuquerque  
**LARRY J. PARSONS** — Audit Supervisor, Ernst & Ernst  
**LADDIE W. OTOSKI** — Director Budget Division, U.S. Atomic Energy Commission  
**HAROLD E. KIOUS** — Finance Director, City of Albuquerque  
**LOUIS R. BREWER** — Senior Budget Examiner, U.S. Atomic Energy Commission  
**ROBERT J. BLOUNT** — Manager Budget Department, Sandia Corp.

**WALTER W. WELLER, JR.** - Asst. Treas., Hoffmann-LaRoche, Inc., Nutley, New Jersey

**EDWARD F. WALTERS** - Budget Manager, Lock Joint Pipe Co., East Orange, New Jersey

**ALVIN PARISER** - Supervisor Budgets, Federal Pacific Electric Co., Newark, New Jersey

**JOHN M. BANKS** - Budget Manager, Lock Joint Pipe Co., East Orange, New Jersey

**HOROLD ASPESI** - Budgetary Control Program & Forecasting, Clairol Inc., New York, N.Y.

**WILLIAM F. ROCHFROD** - Budget Analyst, W.R. Grace & Co., New York, N.Y.

**WILLIAM A. WENZEL** - Asst. to Budget Supervisor, St. Regis Paper Co., Elmont, L.I., N.Y.

**ROBERT E. DELANCE** - Budget Accountant, Eli Lilly & Co., Indianapolis, Indiana

**PHILIP A. WINTER III** - St. Louis-San Francisco Railway Co., St. Louis, Missouri

**CHARLES HERLINGER** - Asst. Secy., Lanzit Corrugated Box Co., Chicago, Illinois

**JOHN L. CHAPMAN** - Budget Coordinator, International Milling Co., Minneapolis, Minnesota

**MERRILL C. BURGSTAHLER** - Budget Director, Minneapolis Gas Co., Minneapolis, Minnesota

**LAWRENCE A. SEELAND** - Controller, Farmers Union Central Exchange Inc., St. Paul, Minnesota

**LLOYD E. MATHEWS** - Chief Cost Accountant, Superior Separator Co., Hopkins, Minnesota

**CLARENCE J. BAUDHUIN** - Controller & Asst. Treas., Hartmann Luggage Co., Racine, Wisconsin

**WILLIAM P. SWEET** - Associate Director of Management Advisory Services, Price Waterhouse & Co., Battle Creek, Michigan

**HERMAN A. KELLER** - Budget Manager, Chicago Rawhide Manufacturing Co., Chicago, Illinois

**HARLEY E. SHEPHERD** - Budget Accountant, J. I. Case Co. - Rock Island Works, Rock Island, Illinois

**JOHN A. COPELAND** - Foundry Ledger Accountant, International Harvester Co., Indianapolis, Indiana

**JOHN S. COOK** - Budget Analyst, Ryan Aeronautical Co., San Diego, California

**JOHN P. MCGRATH** - Budget Analyst, Ryan Aeronautical Co., San Diego, California

**WILLIAM HARRY MYERS** - Budget Analyst, Ryan Aeronautical Co., San Diego, California

**FRANK N. ROUBIEU** - Sr. Budget Analyst, Ryan Aeronautical Co., San Diego, California

**DON L. SMYTHE** - Sr. Budget Analyst, Ryan Aeronautical Co., San Diego, California

**WILLIAM T. WYMAN** - Sr. Budget Analyst, Ryan Aeronautical Co., San Diego, California

**DONALD M. CLARK** - Profit Improvement Accountant, Van de Kamp's Holland Dutch Bakers, Los Angeles, California

**ROBERT W. TAYLOR** - Management Consultant, Peat, Marwick, Mitchell & Co., Los Angeles, California

**CARLETON NESBITT** - Budget Accountant, Western Air Lines, Inc., Los Angeles, California

**GEORGE W. SORENSEN** - Manager of Taxes and Budgets, Perkin-Elmer Corp., Norwalk, Connecticut

**ROBERT G. HAVEMEYER** - Staff Engineer, Stevenson, Jordan & Harrison, Inc. Stamford, Connecticut

**JOHN O. LANGE** - Asst. Prof. of Accounting, Bradley University School of Business Administration Peoria, Illinois

**PETER G. BARDEZBANIAN** - Finance Director, City of Peoria, Peoria, Illinois

**F. W. HARSH** - Budget Accountant, Caterpillar Tractor Co., Peoria, Illinois

**ROGER WACH** - Div. Budget Analyst, Harris-Seybold Co., Cleveland, Ohio



**ROBERT E. TROMMER** - Budget Administrator, National Malleable & Steel Castings Co., Cleveland Ohio.

**ROBERT H. BROOK** - Accounting Dept. - Financial Statistics, Republic Steel Corp., Cleveland, Ohio

**ARVID H. NYBERG, JR.** - Accountant, Republic Steel Corp., Cleveland, Ohio

**GEORGE B. LOFTUS** - Mgr. of Administrative Control, The E. F. Hauserman Co., Cleveland, Ohio

**WILLIAM G. CLARK** - Budget Supervisor, Sutherland Paper Co., Kalamazoo, Michigan

**JAMES F. DANIELS** - Accountant, Anaconda Aluminum Co., Louisville, Kentucky

**DONALD A. MORRIS** - Accountant, George J. Meyer Manufacturing Co., Cudahy, Wisconsin

**ALLAN P. GOOD** - Mgr. Spec. Accounting and Budget, Northern Indiana Public Service Co., Hammond, Ind.

**ROBERT C. WEBB** - Accountant - R.R. Donnelley & Sons Co., Maywood, Illinois

**STANLEY WOJCIK**, - Chief Accountant, Nalco Chemical Co., Chicago, Illinois

**WILLIAM A. BOOK** - Consultant-Enamel Plants-American-Standard Corp., Warren, Ohio

**SAMUEL CLEMENT WHALEN, JR.** - Budget Director, Sun Clothes, Inc., Philadelphia, Pa.

**GORDON J. SEVOLD** - Cost & Budget Mgr., Frank H. Fleer Corp., Philadelphia, Pa.

**EDWARD C. BEVAN** - Corporate Accounting Activities, Sun Oil Co., Philadelphia, Pa.

**THEODORE R. GROMEK** - E. J. Longyear Co., Minneapolis, Minn.

**WILLIAM G. McCARTY** - 2nd Vice President, Manufacturers Natl. Bk. of Detroit, Detroit, Michigan

**HARRY CAGLE** - Accounting Supervisor-Budgets, Wyandotte Chemicals Corp., Trenton, Michigan

**CORNELIUS G. STAUFFER** - Budgetary Control Supervisor, SKF Industries, Inc. Philadelphia, Pa.

**JOHN G. CLOUD** - Genl. Supervisor Budgets & Cost, SKF Industries, Inc., Philadelphia, Pa.

**M. NELSON CONRAD** - Director Budgets & Genl. Accounting, Mosler Safe Co., Hamilton, Ohio

**JOHN T. GALLAGHER** - Management Services Specialist, Lybrand, Ross Bros. & Montgomery, Cinci, Ohio

**PAUL A. PITZER** - Supervisor Budgets, Mosler Safe Co., Cincinnati, Ohio

**ROBERT W. HUNT** - Controller, Lion Uniform, Inc., Troy, Ohio

**GEORGE B. STEPHAN** - Budget Manager, General Mills, Inc., Minneapolis, Minnesota

**HAROLD W. BOCK** - Asst. Budget Mgr. - Operating Programs, General Mills, Inc., Minneapolis, Minn.

**MILTON CLARK JOHNSON** - Chief Accountant, Webcor, Inc., LaGrange Park, Illinois

**EDWARD D. BLAZEK** - Mgr. Budgets & Operations Analysis, The Kendall Co., Chicago, Illinois

**J. RALPH GROSHONG** - Asst. Budget Mgr., Armour & Co., Chicago, Illinois

## ABOUT OUR AUTHORS

RICHARD E. HAMBROOK - Top Management and the Budget - is Executive Vice President of The Pacific Telephone and Telegraph Company of San Francisco, California. Mr. Hambrook was born in Phoenix, Arizona and emigrated to Southern California where he was graduated from the California Institute of Technology. He joined the Pacific Telephone company in 1921 and has had various executive positions both in the operations departments and general management. Mr. Hambrook has been a member of Pacific Telephone's top management team and an officer of the company since 1943. He is presently a member of the Board of Directors of Pacific Telephone, Bell Telephone Company of Nevada and the Bank of Cali-

fornia. He is also a member of the Board of Governors of Federated Employers of San Francisco, and a member of the Advisory Board of the Science Fair.

HAROLD W. FOX - Staff Work in Capital Budgeting - is head of management services, Rowe Manufacturing Company, Inc., Whippny, New Jersey, a subsidiary of Automatic Canteen Company of America. He is an Instructor at The Graduate School, Fairleigh Dickinson University. A previous contributor to Business Budgeting, Mr. Fox also is the author of other articles which have been published in different journals.

## PEORIA CHAPTER CHARTER PRESENTATION

ART MOOR, National First Vice-President is shown about to present the NSBB Charter to JOHN W. GALVIN, Vice-President of the Peoria Area Chapter. The presentation occurred on October 28, 1959 at Peoria, Illinois.



Charter members of the new chapter are as follows:

<b>PETER G. BARDEZ BANIAN</b>	- City of Peoria
<b>CLAYTON L. BOYD</b>	- Caterpillar Tractor Company
<b>JOHN W. GALVIN</b>	- State Farm Life Insurance Company
<b>FRED W. HARSCH</b>	- Caterpillar Tractor Company
<b>JOHN J. JACOBS</b>	- Peoria Malleable Castings Company
<b>CLARENCE H. JACKMAN</b>	- Bradley University
<b>THOMAS KRAUSE</b>	- State Farm Fire and Casualty Company
<b>JOHN O. LANGE</b>	- Bradley University
<b>RAYMOND B. MUZZY</b>	- Eureka Williams Corporation
<b>RAY POULTON</b>	- State Farm Mutual Automobile Insurance Company
<b>FRANCIS STALEY</b>	- Muirson Label Company, Inc.
<b>THOMAS WRIGLEY, JR.</b>	- State Farm Fire and Casualty Company

## KNOW YOUR OFFICERS



Les has had a varied career, both in the service of the Los Alamos Scientific Laboratory and NSBB. Starting at the beginning through, we find that Les traversed the U.S. Les was born in Brewer, Maine but grew up in the San Francisco Bay area. He didn't stop here, however, a trick in the merchant marine put him still further west (or was it near east), anyway, he was on the Orient run. After which he returned to land to enter UCLA where he was graduated in 1937 with a B.Sc. in Business Administration.

After a period of working in Retail Selling, including a business of his own, Les joined the University of California, Los Alamos Scientific Laboratory in 1943. During the past sixteen (16) years with the laboratory, he has held positions of expediter, senior expediter, assistant budget manager, business manager of the Sandia Laboratory and budget officer.

Activities since joining the NSBB in 1951 includes:

Chairman, Annals Committee, 1954-55

Chairman, Long Range Conference Planning Committee, 1956-57

Director, Representing Members-At-Large, 1955-59

Member, Planning Committee, 1958-59

National Secretary, 1959-60

Chairman, Organization Committee, 1959-60

Chairman, Election Committee, 1959-60

Member, Budget and Finance Committee, 1959-60

Charter Member, New Mexico Chapter, 1959

Les' wife's name is Avis, and they have two daughters, ages 16 and 20.

Among his avocations are field ornithology (since 1929), trout fishing and touring the scenic and historical areas of the west. Les also found time to serve as a member of the Los Alamos School Board from 1951 - 1957, being President for the last two years.

THE  
10th  
ANNUAL  
NATIONAL  
CONFERENCE

Cincinnati, Ohio



DOWN BY THE OHIO

HOTEL NETHERLAND HILTON

May 19-20, 1960



THE CONFERENCE COMMITTEE (*Left to Right*)

Paul Coons - *Deputy Conference Chairman*, Scott Timmerman - *General Conference Secretary*, Clem Buenger - *Reception Chairman*, Larry Haverkamp - *Program Chairman*, Harold Woehrmyer - *General Conference Chairman*, Richard Shaw - *Cincinnati Chapter President*, Bruce Mayhall - *Arrangements Chairman*, Norm Reinhold - *Registration Chairman*, Mel Aichholz - *Publicity Chairman*.

NOT IN PICTURE

Fred Kieffer - *Finance Chairman*, Charles Reynolds - *Deputy Conference Chairman*